

# A15000

## Payments to Civil Divisions of the State

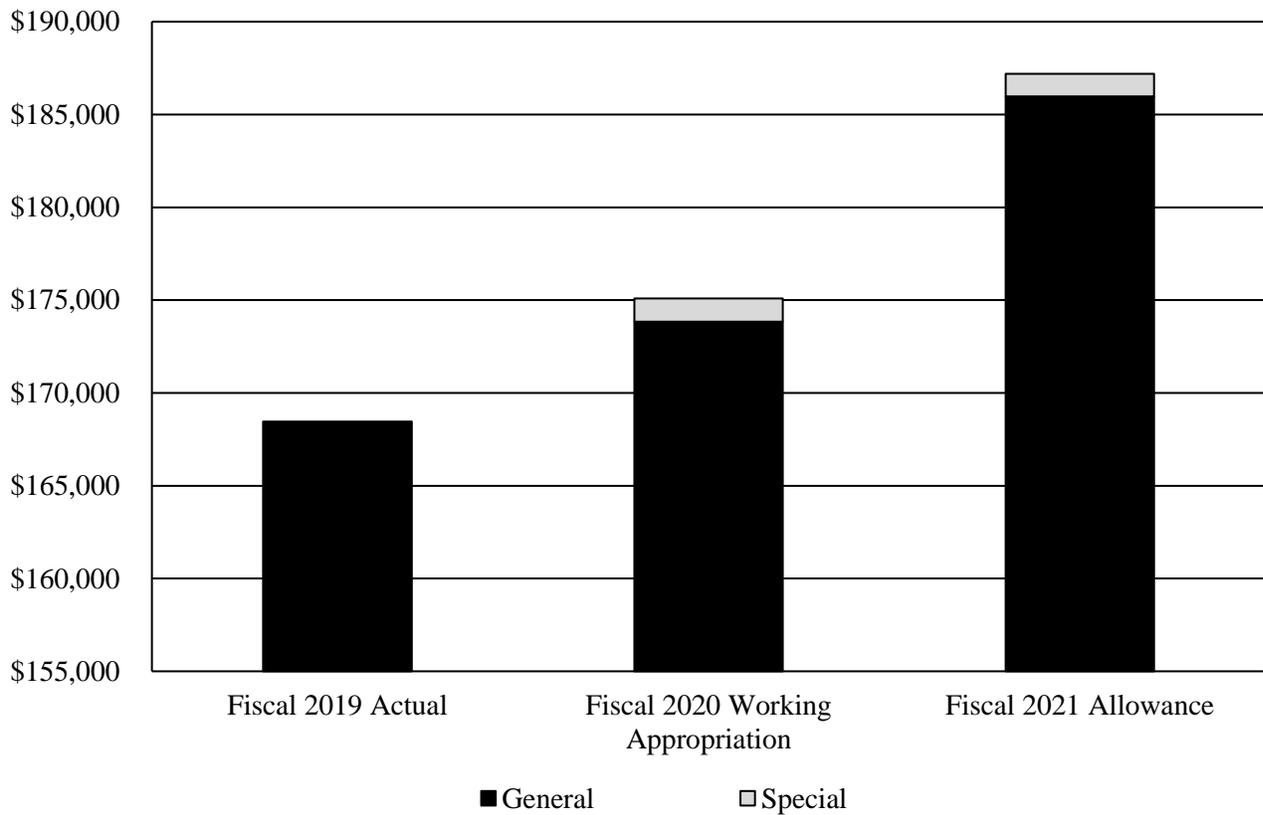
### Program Description

Miscellaneous State grant programs that provide funds to Maryland’s local jurisdictions are budgeted under Payments to Civil Divisions of the State. These include disparity grants to low-wealth jurisdictions and grants to mitigate the impact of the local assumption of a portion of teacher retirement costs. Beginning with fiscal 2018, grants from the Calvert County Gaming Tax Fund are also included.

### *Operating Budget Summary*

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**Budget Increases \$12.1 Million or 6.9% to \$187.2 Million in Fiscal 2021**  
 (\$ in Thousands)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

- Changes in county income tax rates in Dorchester, Washington, and Wicomico counties are driving most of the increase in State disparity grant spending in fiscal 2021.

## **Fiscal 2019**

Statute provides for funding from a portion of the State admissions and amusement tax on electronic bingo and electronic tip jars in Calvert County to be distributed to the towns of North Beach and Chesapeake Beach, the Calvert County Youth Recreational Opportunities Fund, and the Boys and Girls Club of the Town of North Beach. In fiscal 2021, these grants total \$1.22 million in special funds. Prior to fiscal 2018, these funds were unbudgeted and distributed directly via revenue transfer by the Comptroller without an appropriation. Beginning in fiscal 2018, the funds were budgeted in Payments to Civil Divisions of the State. While the Department of Budget and Management (DBM) is properly budgeting these funds, the Comptroller continues to perform a revenue transfer of the funds, rather than using the appropriation. Therefore, the fiscal 2019 closeout report from DBM shows the \$1.2 million appropriation of special funds as unencumbered, even though the funds have been provided to the statutory recipients. Further discussion of this issue can be found in the analysis of the Comptroller.

## **Fiscal 2021 Allowance**

### **Overview of Disparity Grants**

**Exhibit 1** provides a summary of funding by jurisdiction for all of the grant programs in fiscal 2021 budgeted under Payments to Civil Divisions of the State. Approximately 50% of the disparity grant allowance in fiscal 2021 is provided to Baltimore City with 23% of the total going to Prince George's County. The remaining 27% goes to eight other jurisdictions. Each county's Teacher Retirement Supplemental Grant amount is set in statute.

**Exhibit 1**  
**State Funding for Payments to Civil Divisions**  
**Fiscal 2020**  
**(\$ in Thousands)**

<u>County</u>	<u>Disparity Grant</u>	<u>Teacher Retirement Supplemental Grant</u>	<u>Calvert County Gaming Grants</u>	<u>Total</u>
Allegany	\$7,299	\$1,632		\$8,931
Anne Arundel				
Baltimore City	79,052	10,048		89,100
Baltimore		3,000		3,000
Calvert			\$1,220	1,220
Caroline	3,415	685		4,100
Carroll				
Cecil	1,846			1,846
Charles				
Dorchester	3,615	309		3,924
Frederick				
Garrett	2,131	406		2,537
Harford				
Howard				
Kent				
Montgomery				
Prince George's	35,943	9,629		45,572
Queen Anne's				
St. Mary's				
Somerset	5,950	382		6,332
Talbot				
Washington	7,781			7,781
Wicomico	11,290	1,568		12,858
Worcester				
<b>Total</b>	<b>\$158,322</b>	<b>\$27,659</b>	<b>\$1,220</b>	<b>\$187,200</b>

Source: Department of Legislative Services

## Proposed Budget Change

As shown in **Exhibit 2**, the Governor’s allowance for Payments to Civil Divisions of the State totals \$187.2 million, an increase of \$12.1 million, which is due primarily to increases in disparity grant payments to Dorchester, Washington, and Wicomico counties caused by increases in those counties’ income tax rate to 3.2%.

**Exhibit 2**  
**Proposed Budget**  
**Payments to Civil Divisions of the State**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Total</u></b>
Fiscal 2019 Actual	\$168,463	\$0	\$168,463
Fiscal 2020 Working Appropriation	173,832	1,250	175,082
Fiscal 2021 Allowance	<u>185,980</u>	<u>1,220</u>	<u>187,200</u>
Fiscal 2020-2021 Amount Change	\$12,149	-\$30	\$12,119
Fiscal 2020-2021 Percent Change	7.0%	-2.4%	6.9%
 <b>Where It Goes:</b>			
<b>Disparity Grants</b>			
Washington .....			\$5,721
Baltimore City .....			2,471
Wicomico .....			1,641
Dorchester .....			1,593
Somerset .....			521
Cecil.....			341
Caroline .....			114
Prince George’s .....			-254
<b>Other Changes</b>			
Calvert County Gaming Tax Fund grants .....			-30
<b>Total</b>			<b>\$12,119</b>

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

## **Disparity Grants**

State funding targeted to the disparity in local income tax capacity is found in Local Government Article, § 16-501. The Disparity Grant Program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. Disparity grants address the difference in the abilities of counties to raise revenues from the local income tax, which for most counties is one of their larger revenue sources.

Counties with per capita income tax revenues less than 75% of the statewide average receive grants unless a county has an income tax rate below 2.6%. Under current law, aid received by counties equals the lesser of the dollar amount necessary to raise the county's per capita income tax revenues to 75% of the statewide average or the amount received under the cap provisions. The original cap provision did not allow counties to receive an amount higher than what that county received from the State in fiscal 2010. However, Chapter 425 of 2013 changed the disparity grant formula cap provisions in order to take into account a local jurisdiction's income tax effort.

Eligible counties, where the amount necessary to raise that county's per capita income tax rate to 75% of the statewide average is more than that county received from the State in fiscal 2010, are set to receive the greater of the dollar amount received from the State in fiscal 2010 or a proportion of the amount necessary to raise the county's per capita income tax revenues to 75% of the statewide average. The proportional amount is based on that particular county's income tax rate, as follows:

- from a tax rate of 2.8% to 2.99%, 20% of the uncapped grant amount;
- from a tax rate of 3% to 3.19%, 40% of the uncapped grant amount; and
- at a tax rate of 3.2% (the maximum), 67.5% of the uncapped grant amount.

Chapter 738 of 2016 increased the proportion that a county with a 3.2% tax rate receives from 60% to 67.5% for fiscal 2018 and 2019; Chapter 472 of 2018 extended the sunset for the 67.5% rate through fiscal 2021. Caroline, Dorchester, Prince George's, Somerset, Washington, and Wicomico counties are all subject to the 67.5% cap and could see lower disparity grants in fiscal 2022.

The calculation under current law for fiscal 2021 is presented in **Exhibit 3**.

**Exhibit 3  
Disparity Grant Calculation  
Fiscal 2021**

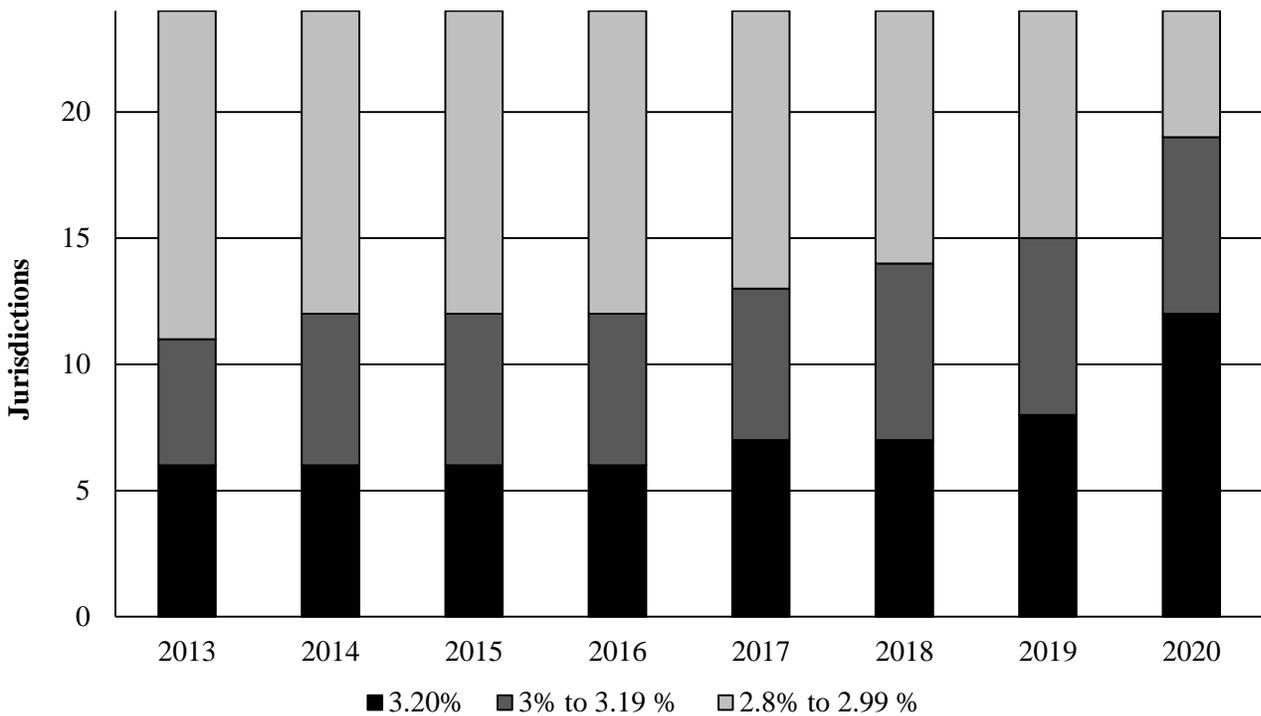
<u>County</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Uncapped Grant Fiscal 2021</u>	<u>(Cap) Fiscal 2010</u>	<u>Grant Amount Fiscal 2021</u>	<u>Grant Amount Fiscal 2020</u>	<u>Difference to Fiscal 2020</u>	<u>Piggyback Calendar 2020</u>
Allegany	\$348.77	\$225.95	\$16,036,635	\$7,298,505	\$7,298,505	\$7,298,505	\$0	3.05%
Anne Arundel	900.93	0.00	0	0	0	0	0	2.81%
Baltimore City	441.37	133.34	80,338,252	79,051,790	79,051,790	76,580,403	2,471,387	3.20%
Baltimore	761.97	0.00	0	0	0	0	0	3.20%
Calvert	802.66	0.00	0	0	0	0	0	3.00%
Caroline	422.81	151.90	5,058,976	2,131,782	3,414,809	3,300,718	114,091	3.20%
Carroll	827.99	0.00	0	0	0	0	0	3.03%
Cecil	529.84	44.87	4,613,853	0	1,845,541	1,504,377	341,165	3.00%
Charles	655.06	0.00	0	0	0	0	0	3.03%
Dorchester	407.33	167.38	5,355,939	2,022,690	3,615,259	2,022,690	1,592,569	3.20%
Frederick	805.14	0.00	0	0	0	0	0	2.96%
Garrett	460.73	113.98	3,324,066	2,131,271	2,131,271	2,131,271	0	2.65%
Harford	754.68	0.00	0	0	0	0	0	3.06%
Howard	1,125.62	0.00	0	0	0	0	0	3.20%
Kent	631.50	0.00	0	0	0	0	0	3.20%
Montgomery	1,154.85	0.00	0	0	0	0	0	3.20%
Prince George's	516.15	58.56	53,248,912	21,694,767	35,943,016	36,196,527	-253,511	3.20%
Queen Anne's	853.71	0.00	0	0	0	0	0	3.20%
St. Mary's	709.14	0.00	0	0	0	0	0	3.17%
Somerset	231.40	343.31	8,814,493	4,908,167	5,949,783	5,429,183	520,600	3.20%
Talbot	992.11	0.00	0	0	0	0	0	2.40%
Washington	498.33	76.38	11,527,962	0	7,781,374	2,060,337	5,721,038	3.20%
Wicomico	412.63	162.08	16,726,185	2,197,041	11,290,175	9,648,842	1,641,333	3.20%
Worcester	652.28	0.00	0	0	0	0	0	2.25%
<b>Total</b>	<b>\$766.28</b>	<b>\$0.00</b>	<b>\$205,045,273</b>	<b>\$121,436,01</b>	<b>\$158,321,522</b>	<b>\$146,172,85</b>	<b>\$12,148,671</b>	
Target (75%)	\$574.71							

Note: Totals may not sum due to rounding

Source: Department of Legislative Services

Chapter 425 appears to have had a substantial impact on county income tax rates by providing the incentive of 67.5% of the uncapped grant to counties with an income tax rate of 3.2% rather than only 40% or 20%. As shown in **Exhibit 4**, in calendar 2013, only six jurisdictions had income tax rates of 3.2%. By calendar 2020, that number has doubled to 12 with only five jurisdictions remaining with rates below 3.0%. The impact of those changes is most dramatic in the fiscal 2021 allowance in Washington County, which increased its rate to 3.2%, and will receive a \$7.8 million disparity grant, up from \$2.1 million in fiscal 2020. Dorchester County did the same and will increase its disparity grant by \$1.6 million to \$3.6 million; Wicomico also increased its rate to 3.2%, resulting in an increase of \$1.6 million to \$11.3 million.

**Exhibit 4**  
**County Piggyback Income Tax Rates**  
**Calendar 2013-2020**



Source: Department of Legislative Services

At the same time the provisions to encourage higher county income tax rates are increasing State disparity grant spending, the cap provisions continue to limit State disparity grant spending. **Exhibit 5** shows that, without the cap provisions, the fiscal 2021 disparity grant would have totaled \$205 million, or \$46.7 million higher than the actual amount.

**Exhibit 5**  
**Effect of Cap Provisions**  
**Fiscal 2021**

<u>County</u>	<u>2020 Uncapped Grant</u>	<u>2021 Uncapped Grant</u>	<u>2020-2021 Uncapped Grant Difference</u>	<u>2021 Foregone Amount</u>
Allegany	\$14,240,561	\$16,036,635	\$1,796,074	\$8,738,130
Baltimore City	76,580,403	80,338,252	3,757,849	1,286,462
Caroline	4,889,952	5,058,976	169,024	1,644,167
Cecil	3,760,942	4,613,853	852,911	2,768,312
Dorchester	4,877,662	5,355,939	478,277	1,740,680
Garrett	3,530,546	3,324,066	-206,480	1,192,795
Prince George's	53,624,484	53,248,912	-375,572	17,305,896
Somerset	8,043,234	8,814,493	771,259	2,864,710
Washington	10,301,683	11,527,962	1,226,279	3,746,588
Wicomico	14,294,580	16,726,185	2,431,605	5,436,010
<b>Total</b>	<b>\$194,144,047</b>	<b>\$205,045,273</b>	<b>\$10,901,226</b>	<b>\$46,723,751</b>

Source: Department of Legislative Services

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## ***Operating Budget Recommended Actions***

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1. Concur with Governor's allowance.

**Appendix 1**  
**Disparity Grant Calculation**  
**Change in Population by Jurisdiction**

<u>County</u>	<u>Population July 2017</u>	<u>Population July 2018</u>	<u>2017-2018 Change</u>	<u>2017-2018 % Change</u>
<b>Allegany</b>	<b>71,615</b>	<b>70,975</b>	<b>-640</b>	<b>-0.9%</b>
Anne Arundel	573,235	576,031	2,796	0.5%
<b>Baltimore City</b>	<b>611,648</b>	<b>602,495</b>	<b>-9,153</b>	<b>-1.5%</b>
Baltimore	832,468	828,431	-4,037	-0.5%
Calvert	91,502	92,003	501	0.5%
<b>Caroline</b>	<b>33,193</b>	<b>33,304</b>	<b>111</b>	<b>0.3%</b>
Carroll	167,781	168,429	648	0.4%
<b>Cecil</b>	<b>102,746</b>	<b>102,826</b>	<b>80</b>	<b>0.1%</b>
Charles	159,700	161,503	1,803	1.1%
<b>Dorchester</b>	<b>32,162</b>	<b>31,998</b>	<b>-164</b>	<b>-0.5%</b>
Frederick	252,022	255,648	3,626	1.4%
<b>Garrett</b>	<b>29,233</b>	<b>29,163</b>	<b>-70</b>	<b>-0.2%</b>
Harford	252,160	253,956	1,796	0.7%
Howard	321,113	323,196	2,083	0.6%
Kent	19,384	19,383	-1	0.0%
Montgomery	1,058,810	1,052,567	-6,243	-0.6%
<b>Prince George's</b>	<b>912,756</b>	<b>909,308</b>	<b>-3,448</b>	<b>-0.4%</b>
Queen Anne's	49,770	50,251	481	1.0%
St. Mary's	112,667	112,664	-3	0.0%
<b>Somerset</b>	<b>25,918</b>	<b>25,675</b>	<b>-243</b>	<b>-0.9%</b>
Talbot	37,103	36,968	-135	-0.4%
<b>Washington</b>	<b>150,578</b>	<b>150,926</b>	<b>348</b>	<b>0.2%</b>
<b>Wicomico</b>	<b>102,923</b>	<b>103,195</b>	<b>272</b>	<b>0.3%</b>
Worcester	51,690	51,823	133	0.3%
<b>Total</b>	<b>6,052,177</b>	<b>6,042,718</b>	<b>-9,459</b>	<b>-0.2%</b>

Note: Bold indicates disparity grant recipients.

Source: Maryland Department of Planning

**Appendix 2**  
**Disparity Grant Calculation**  
**Change in Adjusted Income Tax Revenues\***

<u>County</u>	<u>Adjusted Income Tax Revenues Tax Year 2017</u>	<u>Adjusted Income Tax Revenues Tax Year 2018</u>	<u>\$ Change 2017-2018</u>	<u>% Change 2017-2018</u>
<b>Allegany</b>	<b>\$23,584,279</b>	<b>\$24,753,628</b>	<b>\$1,169,349</b>	<b>5.0%</b>
Anne Arundel	474,867,392	518,961,934	44,094,542	9.3%
<b>Baltimore City</b>	<b>246,473,251</b>	<b>265,923,528</b>	<b>19,450,276</b>	<b>7.9%</b>
Baltimore	585,631,374	631,235,718	45,604,344	7.8%
Calvert	67,728,607	73,847,096	6,118,488	9.0%
<b>Caroline</b>	<b>12,641,569</b>	<b>14,081,270</b>	<b>1,439,701</b>	<b>11.4%</b>
Carroll	127,804,483	139,457,810	11,653,327	9.1%
<b>Cecil</b>	<b>50,506,334</b>	<b>54,481,598</b>	<b>3,975,264</b>	<b>7.9%</b>
Charles	97,816,792	105,794,730	7,977,939	8.2%
<b>Dorchester</b>	<b>12,109,317</b>	<b>13,033,732</b>	<b>924,415</b>	<b>7.6%</b>
Frederick	186,487,738	205,831,556	19,343,818	10.4%
<b>Garrett</b>	<b>11,909,425</b>	<b>13,436,292</b>	<b>1,526,867</b>	<b>12.8%</b>
Harford	175,777,426	191,654,696	15,877,270	9.0%
Howard	333,168,887	363,796,627	30,627,740	9.2%
Kent	11,010,677	12,240,337	1,229,659	11.2%
Montgomery	1,128,821,726	1,215,558,850	86,737,124	7.7%
<b>Prince George's</b>	<b>428,465,151</b>	<b>469,342,322</b>	<b>40,877,172</b>	<b>9.5%</b>
Queen Anne's	38,710,603	42,899,755	4,189,153	10.8%
St. Mary's	72,459,642	79,894,580	7,434,938	10.3%
<b>Somerset</b>	<b>5,645,856</b>	<b>5,941,266</b>	<b>295,410</b>	<b>5.2%</b>
Talbot	30,318,705	36,676,152	6,357,447	21.0%
<b>Washington</b>	<b>69,228,984</b>	<b>75,211,190</b>	<b>5,982,206</b>	<b>8.6%</b>
<b>Wicomico</b>	<b>40,066,181</b>	<b>42,581,335</b>	<b>2,515,153</b>	<b>6.3%</b>
Worcester	30,863,833	33,803,057	2,939,224	9.5%
<b>Total</b>	<b>\$4,262,098,231</b>	<b>\$4,630,439,059</b>	<b>\$368,340,827</b>	<b>8.6%</b>

\* Per the disparity grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Bold indicates disparity grant recipients.

Source: Comptroller of Maryland

**Appendix 3**  
**Disparity Grant Calculation**  
**Change in Adjusted Income Tax Revenue Per Capita\***

<u>County</u>	<u>Per Capita Tax Yield Tax Year 2017</u>	<u>Per Capita Tax Yield Tax Year 2018</u>	<u>\$ Change 2017-2018</u>	<u>% Change 2017-2018</u>
<b>Allegany</b>	<b>\$329.32</b>	<b>\$348.77</b>	<b>\$19.45</b>	<b>5.9%</b>
Anne Arundel	828.40	900.93	72.53	8.8%
<b>Baltimore City</b>	<b>402.97</b>	<b>441.37</b>	<b>38.40</b>	<b>9.5%</b>
Baltimore	703.49	761.97	58.48	8.3%
Calvert	740.19	802.66	62.47	8.4%
<b>Caroline</b>	<b>380.85</b>	<b>422.81</b>	<b>41.96</b>	<b>11.0%</b>
Carroll	761.73	827.99	66.26	8.7%
<b>Cecil</b>	<b>491.56</b>	<b>529.84</b>	<b>38.28</b>	<b>7.8%</b>
Charles	612.50	655.06	42.56	6.9%
<b>Dorchester</b>	<b>376.51</b>	<b>407.33</b>	<b>30.82</b>	<b>8.2%</b>
Frederick	739.97	805.14	65.17	8.8%
<b>Garrett</b>	<b>407.40</b>	<b>460.73</b>	<b>53.33</b>	<b>13.1%</b>
Harford	697.09	754.68	57.59	8.3%
Howard	1,037.54	1,125.62	88.08	8.5%
Kent	568.03	631.50	63.47	11.2%
Montgomery	1,066.12	1,154.85	88.73	8.3%
<b>Prince George's</b>	<b>469.42</b>	<b>516.15</b>	<b>46.73</b>	<b>10.0%</b>
Queen Anne's	777.79	853.71	75.92	9.8%
St. Mary's	643.13	709.14	66.01	10.3%
<b>Somerset</b>	<b>217.84</b>	<b>231.40</b>	<b>13.57</b>	<b>6.2%</b>
Talbot	817.15	992.11	174.96	21.4%
<b>Washington</b>	<b>459.75</b>	<b>498.33</b>	<b>38.58</b>	<b>8.4%</b>
<b>Wicomico</b>	<b>389.28</b>	<b>412.63</b>	<b>23.35</b>	<b>6.0%</b>
Worcester	597.09	652.28	55.18	9.2%
<b>Total</b>	<b>\$704.23</b>	<b>\$766.28</b>	<b>\$62.05</b>	<b>8.8%</b>
Target (75%)	\$528.17	\$574.71	\$46.54	8.8%

\* Per the disparity grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Bold indicates disparity grant recipients.

Source: Department of Legislative Services

**Appendix 4**  
**Object/Fund Difference Report**  
**Payments to Civil Divisions of the State**

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
<b>Objects</b>					
12 Grants, Subsidies, and Contributions	\$ 168,462,833	\$ 175,081,514	\$ 187,200,184	\$ 12,118,670	6.9%
<b>Total Objects</b>	<b>\$ 168,462,833</b>	<b>\$ 175,081,514</b>	<b>\$ 187,200,184</b>	<b>\$ 12,118,670</b>	<b>6.9%</b>
<b>Funds</b>					
01 General Fund	\$ 168,462,833	\$ 173,831,514	\$ 185,980,184	\$ 12,148,670	7.0%
03 Special Fund	0	1,250,000	1,220,000	-30,000	-2.4%
<b>Total Funds</b>	<b>\$ 168,462,833</b>	<b>\$ 175,081,514</b>	<b>\$ 187,200,184</b>	<b>\$ 12,118,670</b>	<b>6.9%</b>

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.